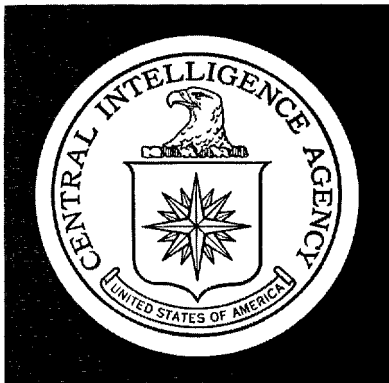


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State Department review completed

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Approved For Release 2004/03/17 : CIA-RDP79T00975A014700100001-7

Approved For Release 2004/03/17 : CIA-RDP79T00975A014700100001-7

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No. 0246/69
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[Vietnam: Party leaders in Hanoi are taking precautionary measures against any letdown in public discipline following Ho Chi Minh's death.

The Public Security Ministry has received instructions for implementing the Politburo's political indoctrination campaign proclaimed two weeks ago. According to a brief announcement by Radio Hanoi, the ministry has been ordered to undertake a wide effort to tighten internal security particularly in areas related to the war effort.

In the South, Communist military activity remained generally light yesterday although the southern delta region experienced rocket attacks on four government outposts. There were also several brief but intense ground clashes.

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Japan - South Korea: Tokyo is moving ahead with a controversial aid project for South Korea because of overriding political considerations.

Japanese officials recently confirmed that the decision to approve the much-criticized Pohang steel mill project, even without the blessing of the World Bank, was taken because of the importance attached by the Sato government to strengthening political relations with Seoul. The project is an important political issue in South Korea, and President Pak has been pressing the Japanese hard to build the mill. The project had stalled last year when a Western consortium failed to obtain the necessary financing because of concern both over the economic viability of the project and over South Korea's future ability to meet foreign debts.

Japanese officials indicated that a continuing negative attitude on the part of the World Bank, which had previously postponed the project, is not likely to alter the government's decision. Tokyo, however, is seeking US assistance in persuading the World Bank to participate in the project, and is prepared to pressure the South Koreans to modify their planning to take into account technical criticisms expressed by the bank.

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East Germany - West Germany: [The East Germans have made a heavy-handed bid to influence the policy of the prospective Socialist - Free Democratic coalition in Bonn.]

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[redacted] East Germany would agree to a meeting between Chancellor-designate Brandt and Stoph, if the former makes certain concessions in a public declaration of the new coalition's policy.]

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[The declaration would commit Bonn to negotiate on the basis of East Germany's draft treaty of 1967, which was a catalog of Pankow's maximum demands. Brandt was also specifically asked to conclude an agreement on the renunciation of force, to ratify the nuclear nonproliferation treaty, to participate in a European security conference, and to ban the right-wing National Democratic Party. This done, [redacted] eventual high-level talks might address "humanitarian" issues such as reduced travel restrictions for West Germans visiting East Germany and, perhaps, similar freedom for West Berliners.]

[Whether the East Germans are seriously interested in such talks remains in doubt. By demanding that Bonn negotiate on the 1967 draft treaty, Pankow has provided the West Germans with grounds for rejecting its proposal. The East Germans, however, probably are under pressure from their allies--particularly the Soviet Union--to be more forthcoming in their relations with Bonn; they may have made this offer in response to Soviet prodding.]

[Brandt undoubtedly wants to respond favorably to any sign of a genuine East German interest in talks. Moreover, Pankow's demands, except for the

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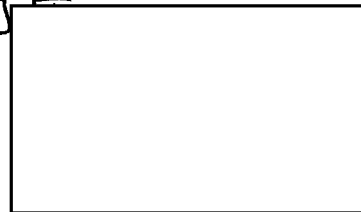
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reference to the 1967 draft treaty, fit well with Brandt's position on these questions. On the other hand, overtures such as these, which are of uncertain authority and which are not especially forthcoming in terms of what the East Germans might be willing to do, will make him cautious. Brandt probably will not want to commit himself to Pankow's demands at this time, preferring instead to have his government seize the initiative at a time and in circumstances of its own choosing.



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Czechoslovakia: Party First Secretary Husak will head a delegation of the country's top leaders to Moscow next Monday for a one-week visit [REDACTED]

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The reported composition of the group suggests that the talks will review what has been accomplished toward "normalization" and what needs to be done in the next few months. The most pressing issues are factionalism within the Czechoslovak party, the holding of a party congress next year, the scheduling of national elections, and the deteriorating economy.

Husak, challenged by the growing influence of conservatives within his regime, probably will seek and receive a more open and direct endorsement of his leadership. Czechoslovak leaders may also request a large credit from the USSR and greater freedom to work out domestic problems in their own way [REDACTED]

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Yugoslavia: The government is threatening to force inefficient enterprises to either become profitable or face liquidation.

Belgrade is proposing to close loopholes which permitted enterprises without cash resources to continue operating at losses by borrowing money intended for investment to pay for current operating expenses. Such firms would be subject to mandatory pay restrictions, ineligibility to import, and more rigorous receivership and bankruptcy procedures if they are unable to meet their debts. Enterprises believed capable of rationalizing their operations would benefit from liberal write-off allowances for bad debts, unsalable stocks, and over-assessed capital equipment. The government is anxious to shift from those solutions that have involved expansion of the money supply and that caused inflation.

It is not anticipated that the current measures, even if enacted as they now stand, would cause a large number of enterprise bankruptcies in the short run. The Finance Secretariat is still considering possible economic consequences to determine whether to introduce the measures gradually or all at once, as well as the tactics to be used if the impact is stronger than intended.

The draft measures which have been approved by the Federal Executive Council (FEC) are expected to engender heated debate and attempted amendment when presented in final form to the Federal Assembly session at the end of October. The decision of the Federal Assembly is not likely to emerge for weeks or possibly months, but unless the FEC proposals are severely watered down, the legislation should bring market discipline strongly to bear on inefficient firms. One loophole in the current draft permits republics to specify certain enterprises which cannot be touched by bankruptcy proceedings; other loopholes may emerge in the course of debate. If the FEC holds the line, however, the liquidity issue could escalate into one of the most controversial aspects of the economic reform.

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USSR-Turkey: The USSR has agreed to increase its aid for industrial development in Turkey.

A Soviet credit of \$200 million extended in 1967 for the construction of five projects is reported in the press to have been raised to \$366 million to cover increased costs. These projects include a steel mill, an oil refinery, a sulphuric acid plant, an aluminum plant, and a fiber board plant.

The projects have not progressed as fast as Turkey would like, although contracts have been signed for all of them and construction has begun on the aluminum plant, the oil refinery, and the sulphuric acid plant. Construction of the steel mill considered by the Turks to be the most important of the five projects, now is expected to start in early 1970 and will be supervised by Soviet experts. Most of the additional credit will go to finance this project. Soviet technical assistance also will be provided for in the construction of the other plants.

According to the announcement, Turkey will repay \$120 million of the credit with an interest rate of 2.5 percent over an unspecified period by exporting goods to the USSR. It is not clear how the remainder of the loan will be repaid.

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Sierra Leone: Prime Minister Siaka Stevens is coming under increasing fire from his faction-ridden All People's Congress.

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[redacted] the minister of development has threatened to resign and publicly criticize Stevens because of his refusal to hold a national party convention. Stevens has been delaying for fear that a convention would cause an open split in the party. Similar fears prompted him to postpone plans for cabinet changes and for local elections. A public resignation could trigger similar defections by others critical of Stevens' performance.

The congress is an amalgam of several tribal and political factions that have found it difficult to unite on policies now that they are in power. The discord within the party stems from tribal feuding, personal conflicts, and Stevens' indecisive leadership.

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Panama: The provisional junta government has revealed that a return to freely elected representative government is unlikely to happen soon.

In a speech marking the first anniversary of the coup, government strongman General Torrijos said that the promise of elections in 1970 will be honored. Instead of general elections, however, a constituent assembly will be elected which will "search for agreeable steps for a return to normal republican life." No mention was made of restoring constitutional guarantees, and there is no indication that the present government intends to relinquish power in the foreseeable future.

The government also unveiled an official political party, the New Panama Movement, which stresses renegotiation of the Canal Treaty with the US and reforms that will benefit urban labor and peasants. It is designed to provide General Torrijos with a broad political base to enable his government to maintain effective control for some time to come. All of the country's traditional parties have been dissolved, and they will not be allowed to function in opposition to the new organization.

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Nicaragua: President Somoza has decided to call a meeting of the five Central American Common Market states in an effort to resolve some of the problems that resulted from the El Salvador - Honduras conflict.

Common Market trade, severely disrupted during the fighting, has not returned to normal because of Honduras' refusal to open its section of the Pan-American Highway to Salvadoran transit trade. Reduced trade has seriously cut government revenue in Nicaragua, as well as in El Salvador. Somoza is worried that continued disruption will also adversely affect his country's economy.

The primary goal of the meeting will be the immediate end to the obstruction of Common Market trade. If this is not possible, Somoza apparently wants the temporary suspension of the Market's free trade provisions so that Nicaraguan merchants can order high-tariff goods from outside the area without fear that the country might subsequently be flooded with duty-free Common Market products. Should Somoza be unable to achieve either objective, he may be prepared to solve his problem unilaterally by ordering a temporary embargo on all Common Market imports.



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Yugoslavia: The recent ban on Milovan Djilas's latest book, The Unperfect Society, is the latest example of Belgrade's crackdown on public expression that might irritate the USSR. The decision to ban the book now, after it has been in print for at least six months, indicates that the Yugoslavs want to strengthen the delicate foundation for improved relations that they have recently established with the Soviets. An issue of a literary magazine containing an anti-Soviet article was banned last month just prior to Soviet Foreign Minister Gromyko's visit to Yugoslavia. These incidents are not likely to pose any widespread danger to Yugoslavia's communication media which are exempt from formal censorship and subject only to party guidance.

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Philippines: President Marcos' public injunction to the Foreign Affairs Office to seek immediate renegotiation of US military base rights is primarily a campaign tactic in his bid for re-election. Marcos was stung by press allegations of his indifference to a US military court acquittal of a US serviceman who accidentally killed a Filipino. He found it necessary to take action to portray himself as the defender of national dignity. Although now publicly committed to start talks with the US, the Philippine Government has not yet seriously thought out a negotiating position and would have little to offer initially.

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